

**HEBER CITY, UTAH
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORTS
YEAR ENDED JUNE 30, 2006**

HEBER CITY

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HEBER CITY

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GREG OGDEN, CPA
1761 EAST 850 SOUTH
SPRINGVILLE, UT 84663
(801)489-8408

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

October 16, 2006

Honorable Mayor
Members of the City Council
Heber City, Utah

Council Members:

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Heber City, Utah (City) as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated October 16, 2006 on my consideration of Heber City, Utah's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United State of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Heber City's basic financial statements. The combining nonmajor fund financial statements and the schedule of impact fees are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Heber City. The combining nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The schedule of impact fees has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I express no opinion on it.

A handwritten signature in black ink, reading "Greg Ogden CPA". The signature is fluid and cursive, with the "CPA" part written in a slightly larger, more formal script.

Greg Ogden
Certified Public Accountant

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This document is a narrative overview and analysis of the financial activities of Heber City for the fiscal year ending June 30, 2006. Heber City management encourages readers to consider the information presented here in conjunction with the financial statements which follow this section. To help the reader with navigation of this report the city's activities are classified in the following manner: government activities refers to general administration, public safety, parks, streets, planning, cemetery and airport etc, while business-type activities refers to operations such as the water and sewer.

FINANCIAL HIGHLIGHTS

- The total net assets of Heber City increased by \$10,354,093 totaling \$71,481,924. The governmental net assets increased by \$1,897,833 and the business-type net assets increased by \$8,456,260.
- The total net assets of governmental and business-type activities is \$71,481,924, and is made up of \$45,538,443 in capital assets, such as land, infrastructure and equipment, and \$25,943,481 in other net assets. The other net assets is made up of \$14,751,659 which represents Heber City's interest in Heber Light & Power, \$6,319,124 is restricted for capital projects such as water, sewer, cemetery and road system improvements, and debt service. Finally, the remaining \$4,872,698 is unrestricted net assets.
- Total long-term liabilities of the City decreased by \$439,217. No new debt was issued. A principal payment of \$234,000 was made on the 1200 South Special Improvement District Bond, principal payment of \$46,000 was made on the Sales Tax Revenue Bond for the Central School, principal payment of \$150,000 was made on the Excise Tax Bond for road improvements and \$1,317 was paid on a capital lease for a copier. Compensated absences decreased by \$7,900.

REPORTING THE CITY AS A WHOLE

This discussion and analysis is intended to serve as an introduction to Heber City's basic financial statements. Heber City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of Heber City's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of Heber City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Heber City is improving or deteriorating. However, you will also need to consider other nonfinancial factors.

- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Both of the government-wide financial statements distinguish functions of Heber City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The government-wide financial statements can be found on pages 13-15 of this report.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Heber City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

- **Governmental funds** - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The only major governmental funds (as determined by generally accepted accounting principles) are the General Fund, Debt Service Fund and Airport Capital Project Fund. The remaining governmental funds are determined to be non-major and are included in the combining statements within this report.

- **Proprietary funds** - Heber City maintains two types of proprietary funds, the enterprise fund and the internal service fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Heber City uses enterprise funds to account for its, Culinary/Pressurized Water Utility, Sewer Utility and Electric Utility joint venture. As determined by generally accepted accounting principles, the, culinary/pressurized water, sewer enterprise and electric utility funds meet the criteria for major fund classification. The internal service fund accounts for motor pool services that are provided to general government activities which meets the criteria for major fund classification.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Heber City, assets exceed liabilities by \$71,481,924.

By far the largest portion of Heber City's net assets (63.7%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

STATEMENT OF NET ASSETS (In thousands of dollars)

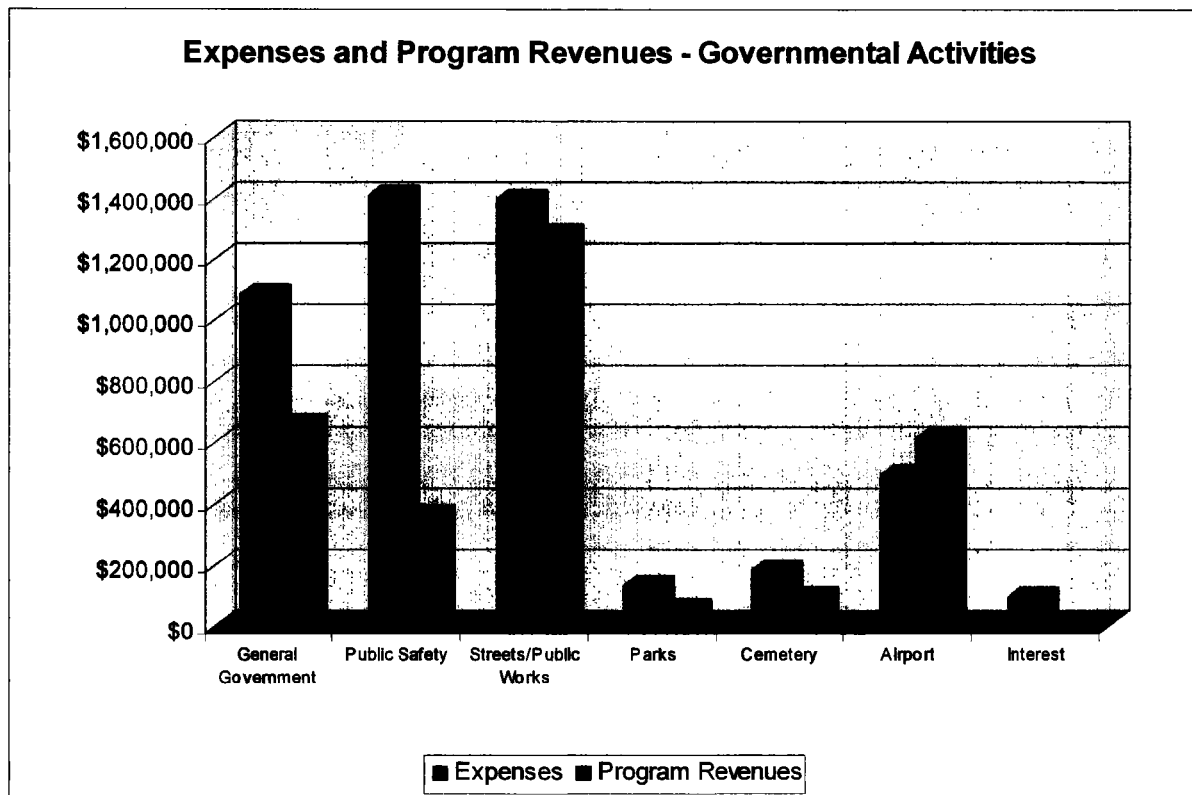
	Governmental Activities		Business-type Activities	
	2005-2006	2004-2005	2005-2006	2004-2005
Current & Other Assets	\$ 4,414	\$ 3,785	\$ 2,568	\$ 2,511
Capital Assets	33,633	32,342	35,394	27,168
Total Assets	38,047	36,127	37,962	29,679
Current Liabilities	1,880	1,422	91	265
Non Current Liabilities	2,534	2,970	22	21
Total Liabilities	4,414	4,392	113	286
Net Assets				
Invested in Capital Assets				
Net of Related Debt	27,831	26,318	17,707	16,562
Restricted	3,384	2,094	17,687	10,607
Unrestricted	2,418	3,323	2,455	2,224
Total Net Assets	\$33,633	\$31,735	\$37,849	\$29,393

CHANGES IN NET ASSETS
(In thousands of dollars)

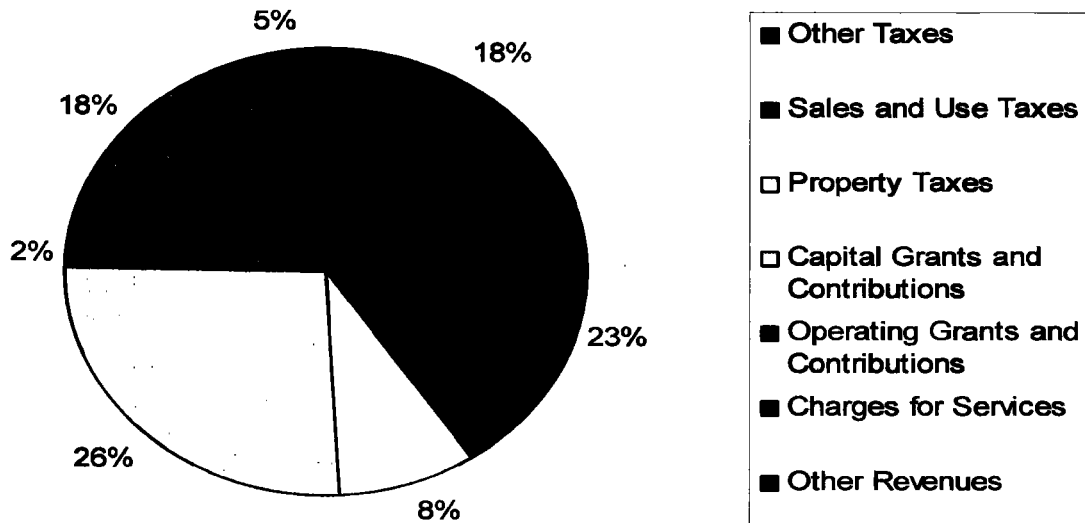
	Governmental Activities		Business-type Activities	
	2005-2006	2004-2005	2005-2006	2004-2005
Revenues				
Program Revenues				
Charges for Services	\$ 1,182	\$ 1,244	\$ 2,004	\$ 1,686
Operating Grants and Contributions	130	134	-	-
Capital Grants and Contribution	1,767	2,760	1,612	1,178
General Revenues				
Property Taxes	560	527	-	-
Sales and Use Taxes	1,522	1,302	-	-
Other Taxes	1,207	1,084	-	-
Other Revenues	339	97	6,623	179
Total Revenues	6,707	7,148	10,239	3,043
Expenses				
General Government	1,085	1,012	-	-
Public Safety	1,411	1,397	-	-
Streets/Public Works	1,395	1,382	-	-
Parks & Recreation	137	86	-	-
Cemetery	185	154	-	-
Airport	496	250	-	-
Interest on Long-Term Debt	100	107	-	-
Water	-	-	1,006	860
Sewer	-	-	777	755
Total Expenses	4,809	4,388	1,783	1,615
Increase in Net Assets Before Transfers	1,898	2,760	8,456	1,428
Transfers	-	-	-	-
Change in Net Assets	1,898	2,760	8,456	1,428
Net Assets Beginning (07/01/05)	31,735	28,975	29,393	27,965
Prior Period Adjustments	-	-	-	-
Net Assets Ending (06/30/06)	\$33,633	\$31,735	\$37,849	\$29,393

Some of the governmental activities for the fiscal year included the acquisition of the Gardner property for airport approach protection \$316,075, completion of construction of a new Public Works facility \$215,987, right-of-way purchase for future bypass road \$182,700, new Main Street Park restroom \$106,073, improvements to the Muirfield Park \$129,674 and chip and slurry sealing of roadways \$672,540. The major Business-type activities expenditures were used for the completion of a new public works facility \$423,720 and replacement of a portion of the City's radio read water meters \$119,748.

The following graphs display the government-wide activities as reflected in the above tables. Program revenues included in the first graph are fees charged for specific services performed by the various governmental functions. General revenues such as property taxes, sales and uses taxes, etc. are not included.

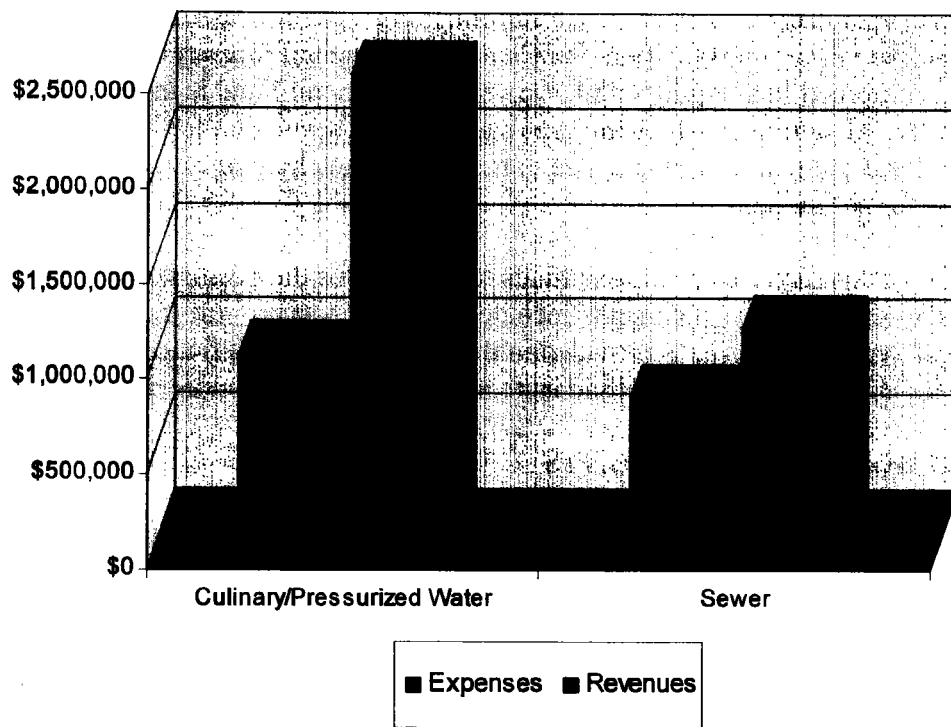


Revenues By Source - Governmental Activities

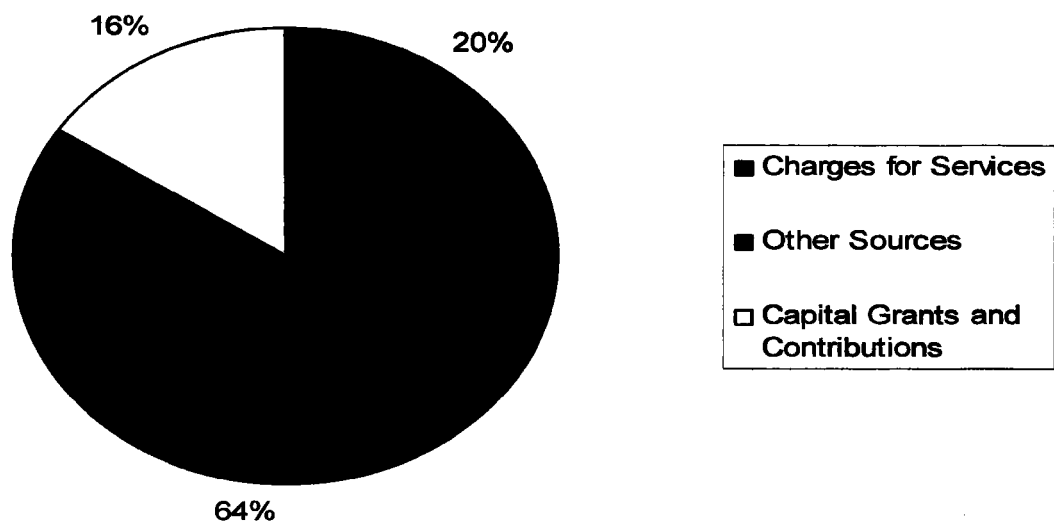


As can be seen from the following charts, the largest source of revenue in the business-type activities comes from other sources which represent interest income and recognition of gain in the Heber Light & Power joint venture, with 64% of the revenues coming from this source. The revenues from capital grants and contributions represent the value of infrastructure systems donated to the City via subdivisions being developed. Charges for services relate to monthly billings for culinary and secondary water and sewer services.

Expenses and Program Revenues - Business-type Activities



Revenue By Source - Business-type Activities



FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. As of the June 30, 2006, the City's governmental funds (General and Debt Service) reported combined fund equity of \$4,796,485. The General Fund is the chief operating fund of the City. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

As stated earlier, the City maintains two enterprise funds to account for the business-type activities of the City. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the General Fund original budget was amended to add an additional \$50,000 in discretionary funds to support a contribution to the Wasatch County Event Center, a transfer of \$400,000 was made to set up a Capital Projects Fund, a transfer of \$50,000 was made to the Airport Capital Projects Fund to match anticipated FAA grants, \$520,000 in Transportation Tax and \$200,000 in Class C road monies were appropriated to cover accelerated road improvements and \$180,000 in road monies were budgeted to purchase right-of-way for a future by-pass route. Other minor adjustments were also made.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - Heber City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$47,897,458 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, infrastructure (streets, sidewalks, curb and gutter, bridges, airport, etc.), and machinery and equipment. The total net increase in the City's investment in fixed assets for the current year was \$2,225,872.

Major capital asset events during the current fiscal year included the following:

- Total developer contributions were \$714,564.
- Construction of the public works facility \$639,707.
- Land acquisition for airport approach protection \$316,075.
- Park improvements Main Street and Muirfield Parks \$235,747.
- Slurry seal and chip sealing of City streets \$\$672,540.

HEBER CITY'S CAPITAL ASSETS
(Net of depreciation, in thousands for dollars)

	Governmental Activities		Business-type Activities	
	2005-2006	2004-2005	2005-2006	2004-2005
Capital Assets Not Being Depreciated				
Land	\$ 9,170	\$ 8,601	\$ 684	\$ 656
Water Shares	-	-	2,530	1,685
Capital Assets Being Depreciated				
Buildings and Structures	1,851	1,529	1,132	708
Improvements and Infrastructure	27,805	26,527	18,476	18,125
Machinery, Equipment, and Vehicles	1,993	1,908	530	502
Total	40,819	38,565	23,352	21,676
Less Accumulated Depreciation	(10,629)	(9,456)	(5,645)	(5,114)
Total Capital Assets	\$30,190	\$29,109	\$17,707	\$16,562

Additional information on the City's capital assets can be found in the footnotes to this financial report and also the supplemental section.

Long-term debt - At June 30, 2006, the City had total debt outstanding of \$2,534,022. The debt consists of \$630,000 of Special Assessment Bonds that will be repaid by benefited property owners on 1200 South, \$365,000 of Sales Tax Revenue Bonds for the purchase of the Central School property, \$1,352,000 of Excise Tax Revenue Bonds that will be repaid with Class C Road funds and the remainder comes from compensated absences and unamortized bond issuance costs.

The City has no general obligation bonded indebtedness. A general obligation bond is backed by the full faith and credit of the City. State statutes limit the amount of general obligation debt a governmental entity may issue to 4% of its total taxable value.

HEBER CITY'S OUTSTANDING DEBT
(In thousands of dollars)

	Governmental Activities		Business-type Activities	
	2005-2006	2004-2005	2005-2006	2004-2005
Special Assessment Bonds	\$ 630	\$ 864	\$ -	\$ -
Revenue Bonds	1,717	1,913	-	-
Capital Leases	-	1	-	-
Compensated Absences	205	212	21	21
Unamort. Bond Issuance Costs	(18)	(20)	-	-
Total	\$2,534	\$2,970	\$21	\$21

Additional information on the outstanding debt obligations of the City can be found in the footnotes to this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The unemployment rate for Wasatch County (of which Heber City is a part of) was 2.3% (October 2006) compared with a state unemployment rate of 2.5% and a national rate of 4.4%. Wasatch County's unemployment rate in October 2005 was 4.2%. (Source: Utah Department of Workforce Services)

The major projects budgeted for next fiscal year include the completion of road maintenance project, construction of a 16" water line on 1200 East serving the southern portion of Heber City, construction of four taxilanes and reconstruction of the taxiway at the airport, continue upgrade and replacement of radio read water meters, purchase of a sewer jet/video vehicle and normal replacement of vehicles. The City Council did not impose a property tax increase and the rate was set at 0.001179.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Heber City's financial condition for all those with an interest in the City's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to:

City Manager,
75 North Main
Heber City, UT 84032

BASIC FINANCIAL STATEMENTS

HEBER CITY
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Totals
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 2,711,303	\$ 2,378,316	\$ 5,089,619
Accounts Receivable, Net of Allowance for Uncollectibles	1,698,353	189,021	1,887,374
Other Assets	4,063	-	4,063
TOTAL CURRENT ASSETS	4,413,719	2,567,337	6,981,056
NONCURRENT ASSETS			
Restricted Assets			
Cash and Cash Equivalents	3,442,712	2,935,299	6,378,011
Capital Assets			
Non Depreciable	9,170,251	3,214,236	12,384,487
Depreciable Assets (net of Depreciation)	21,019,891	14,493,080	35,512,971
Other Assets			
Investment in Joint Ventures	-	14,751,659	14,751,659
TOTAL NONCURRENT ASSETS	33,632,854	35,394,274	69,027,128
TOTAL ASSETS	38,046,573	37,961,611	76,008,184
LIABILITIES			
CURRENT LIABILITIES			
Accounts Payable and Accrued Expenses	1,228,713	91,305	1,320,018
Deferred Revenues	650,787	-	650,787
TOTAL CURRENT LIABILITIES	1,879,500	91,305	1,970,805
NONCURRENT LIABILITIES			
Due Within One Year	373,394	21,433	394,827
Due in more than One Year	2,160,628	-	2,160,628
TOTAL NONCURRENT LIABILITIES	2,534,022	21,433	2,555,455
TOTAL LIABILITIES	4,413,522	112,738	4,526,260
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	27,831,127	17,707,316	45,538,443
Restricted for			
Investment in Joint Venture	-	14,751,659	14,751,659
Community Improvements	2,973,429	2,935,299	5,908,728
Perpetual Care Endowment	146,511	-	146,511
Debt Service	263,885	-	263,885
Unrestricted	2,418,099	2,454,599	4,872,698
TOTAL NET ASSETS	\$ 33,633,051	\$ 37,848,873	\$ 71,481,924

See the accompanying notes to the financial statements

HEBER CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
<u>FUNCTIONS/PROGRAMS</u>				
Governmental Activities				
General Government	\$ 1,084,502	\$ 656,518	\$ 645	\$ -
Public Safety	1,411,275	241,115	126,436	-
Public Works	1,394,746	123,750	-	1,157,480
Parks and Recreation	137,498	670	2,500	58,629
Cemetery	184,813	96,301	-	-
Airport	495,911	63,509	-	550,853
Interest on Long-Term Debt	100,367	-	-	-
Total Governmental Activities	<u>4,809,112</u>	<u>1,181,863</u>	<u>129,581</u>	<u>1,766,962</u>
Business-type Activities				
Water	1,006,183	1,157,666	-	1,314,666
Sewer	776,885	846,855	-	297,228
Electric	-	-	-	-
Total Business-type Activities	<u>1,783,068</u>	<u>2,004,521</u>	<u>-</u>	<u>1,611,894</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 6,592,180</u>	<u>\$ 3,186,384</u>	<u>\$ 129,581</u>	<u>\$ 3,378,856</u>

General Revenues
Property Taxes
Vehicle Taxes
Sales Taxes
Franchise and Other Taxes
Unrestricted Investment Earnings
Miscellaneous
Joint Venture Gain (Loss)
Special Item
Gain on Sale of Land
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning
Net Assets - Ending

See the accompanying notes to the financial statements

Net (Expense) Revenue and Changes in Net Assets
Primary Government

Governmental Activities	Business-type Activities	Total
\$ (427,339)	-	\$ (427,339)
(1,043,724)	-	(1,043,724)
(113,516)	-	(113,516)
(75,699)	-	(75,699)
(88,512)	-	(88,512)
118,451	-	118,451
(100,367)	-	(100,367)
<u>(1,730,706)</u>	<u>-</u>	<u>(1,730,706)</u>
-	1,466,149	1,466,149
-	367,198	367,198
-	-	-
-	<u>1,833,347</u>	<u>1,833,347</u>
\$ <u>(1,730,706)</u>	\$ <u>1,833,347</u>	\$ <u>102,641</u>
560,520	-	560,520
86,720	-	86,720
1,521,857	-	1,521,857
1,119,954	-	1,119,954
226,440	208,756	435,196
8,110	-	8,110
-	6,414,157	6,414,157
<u>104,938</u>	<u>-</u>	<u>104,938</u>
<u>3,628,539</u>	<u>6,622,913</u>	<u>10,251,452</u>
1,897,833	8,456,260	10,354,093
<u>31,735,218</u>	<u>29,392,613</u>	<u>61,127,831</u>
\$ <u>33,633,051</u>	\$ <u>37,848,873</u>	\$ <u>71,481,924</u>

HEBER CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	Governmental-type Activities				
	General	Debt Service	Capital Projects-Airport	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 2,113,731	\$ -	\$ -	\$ -	\$ 2,113,731
Property Taxes Receivable	551,408	-	-	-	551,408
Grants Receivable	-	-	103,813	-	103,813
Special Assessments Receivable	-	650,787	-	-	650,787
Other Receivables	392,345	-	-	-	392,345
Restricted Cash	1,193,247	48,833	94,376	2,106,256	3,442,712
Other Assets	4,063	-	-	-	4,063
TOTAL ASSETS	\$ 4,254,794	\$ 699,620	\$ 198,189	\$ 2,106,256	\$ 7,258,859
LIABILITIES AND FUND EQUITY					
LIABILITIES					
Accounts Payable	\$ 753,858	\$ -	\$ 103,106	\$ 59,594	\$ 916,558
Compensated Absences	61,394	-	-	-	61,394
Developer Escrows Payable	282,227	-	-	-	282,227
Deferred Revenue	551,408	650,787	-	-	1,202,195
TOTAL LIABILITIES	1,648,887	650,787	103,106	59,594	2,462,374
FUND BALANCE					
Reserved					
Class C Roads	241,326	-	-	-	241,326
Transportation Tax	673,869	-	-	-	673,869
Capital Projects	63,000	-	95,083	515,573	673,656
Debt Service	215,052	48,833	-	-	263,885
Impact Fees	-	-	-	1,384,578	1,384,578
Cemetery Perpetual Care	-	-	-	146,511	146,511
Unreserved	1,412,660	-	-	-	1,412,660
TOTAL FUND EQUITY	2,605,907	48,833	95,083	2,046,662	4,796,485
TOTAL LIABILITIES AND FUND EQUITY	\$ 4,254,794	\$ 699,620	\$ 198,189	\$ 2,106,256	\$ 7,258,859

See the accompanying notes to the financial statements

HEBER CITY

RECONCILIATION OF THE GOVERNMENTAL FUNDS

BALANCE SHEET TO THE STATEMENT OF NET ASSETS

JUNE 30, 2006

TOTAL GOVERNMENTAL FUND BALANCES \$ 4,796,485

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds 30,190,142

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds 551,408

One internal service fund is used by management to charge the cost of vehicle maintenance to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities of the statement of net assets 597,572

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds (2,502,556)

TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 33,633,051

See the accompanying notes to the financial statements

HEBER CITY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Governmental-type Activities				Total Governmental Funds
	General	Debt Service	Capital Projects- Airport	Nonmajor Governmental Funds	
REVENUES					
Taxes	\$ 3,267,417	\$ -	\$ -	\$ -	\$ 3,267,417
Licenses and Permits	369,870	-	-	-	369,870
Intergovernmental	457,030	-	550,853	2,500	1,010,383
Charges for Services	315,305	122,358	-	37,420	475,083
Fines and Forfeitures	213,160	-	-	-	213,160
Interest	127,207	6,300	1,525	68,091	203,123
Miscellaneous	-	-	8,110	-	8,110
TOTAL REVENUES	4,749,989	128,658	560,488	108,011	5,547,146
EXPENDITURES					
General Government	1,072,104	-	-	-	1,072,104
Public Safety	1,481,345	-	-	-	1,481,345
Public Works	1,634,794	-	-	-	1,634,794
Parks and Recreation	235,429	-	-	-	235,429
Cemetery	170,296	-	-	-	170,296
Airport	31,027	-	258,492	-	289,519
Debt Service					
Principal	-	431,319	-	-	431,319
Interest and Finance Charges	-	101,524	-	-	101,524
Capital Outlay	-	-	316,075	196,445	512,520
TOTAL EXPENDITURES	4,624,995	532,843	574,567	196,445	5,928,850
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	124,994	(404,185)	(14,079)	(88,434)	(381,704)
OTHER FINANCING SOURCES (USES)					
Heber Light and Power Dividend	123,750	-	-	-	123,750
Impact Fees	-	-	-	383,472	383,472
Gain on Sale of Land	-	-	-	105,220	105,220
Transfers In	-	255,000	50,000	400,000	705,000
Transfers Out	(705,000)	-	-	-	(705,000)
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND USES	(456,256)	(149,185)	35,921	800,258	230,738
BEGINNING FUND BALANCE	3,062,163	198,018	59,162	1,246,404	4,565,747
ENDING FUND BALANCE	\$ 2,605,907	\$ 48,833	\$ 95,083	\$ 2,046,662	\$ 4,796,485

See the accompanying notes to the financial statements

HEBER CITY

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND USES - TOTAL GOVERNMENTAL FUNDS	\$ 230,738
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*Amounts reported for governmental activities in the statement of activities
are different because*

Property taxes will not be collected for several months after the City's fiscal year end. They are not considered to be available revenues in the governmental funds. Deferred property tax revenues increased by this amount this year.	21,634
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Governmental funds report capital outlays as expenditures. In the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,159,450
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Issuance of long-term debt provides current financial resources to governmental funds. The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This amount is the net difference in the treatment of long-term debt and related items.	428,758
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An internal service fund is used by management to charge the cost of fleet management to individual funds. The net revenues of the internal service is reported within the governmental activities.	42,460
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Some revenues and expenses reported in the statement of activities do not add to or require the use of current financial resources and, therefore, are not reported as revenues or expenditures in the governmental funds.	<u>14,793</u>
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,897,833</u>
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HEBER CITY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Taxes	\$ 2,824,500	\$ 2,824,500	\$ 3,267,417	\$ 442,917
Licenses and Permits	233,250	233,250	369,870	136,620
Intergovernmental	444,884	444,884	457,030	12,146
Charges for Services	152,745	236,845	315,305	78,460
Fines and Forfeitures	178,500	178,500	213,160	34,660
Interest	32,000	32,000	127,207	95,207
 TOTAL REVENUES	 <u>3,865,879</u>	 <u>3,949,979</u>	 <u>4,749,989</u>	 <u>800,010</u>
 <u>EXPENDITURES</u>				
General Government	1,068,953	1,121,053	1,072,104	48,949
Public Safety	1,536,469	1,536,469	1,481,345	55,124
Public Works	1,384,348	2,309,348	1,634,794	674,554
Parks and Recreation	257,725	257,725	235,429	22,296
Cemetery	202,070	202,070	170,296	31,774
Airport	25,500	32,500	31,027	1,473
 TOTAL EXPENDITURES	 <u>4,475,065</u>	 <u>5,459,165</u>	 <u>4,624,995</u>	 <u>834,170</u>
 EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES				
	(609,186)	(1,509,186)	124,994	1,634,180
 <u>OTHER FINANCING SOURCES (USES)</u>				
Heber Light and Power Dividend	123,750	123,750	123,750	-
Transfers Out	<u>(255,000)</u>	<u>(705,000)</u>	<u>(705,000)</u>	<u>-</u>
 EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND USES				
	(740,436)	(2,090,436)	(456,256)	1,634,180
 FUND BALANCE ALLOCATION				
	<u>740,436</u>	<u>2,090,436</u>	<u>-</u>	<u>(2,090,436)</u>
 EXCESS (DEFICIT) OF RESOURCES OVER CHARGES TO APPROPRIATIONS				
	\$ -	\$ -	\$ (456,256)	\$ (456,256)

See the accompanying notes to the financial statements

HEBER CITY

STATEMENT OF NET ASSETS PROPRIETARY FUNDS JUNE 30, 2006

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Electric	Internal Service Fund
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 1,106,891	\$ 1,271,425	\$ -	\$ 2,378,316
Accounts Receivable, Net of Allowance for Uncollectibles	122,326	66,695	-	189,021
TOTAL CURRENT ASSETS	1,229,217	1,338,120	-	2,567,337
NONCURRENT ASSETS				
Restricted Assets				
Cash and Cash Equivalents	1,415,538	1,519,761	-	2,935,299
Capital Assets				
Land	352,319	331,609	-	683,928
Water Shares	2,530,308	-	-	2,530,308
Buildings	559,439	572,486	-	1,131,925
Improvements	11,351,164	7,124,976	-	18,476,140
Machinery and Equipment	134,005	395,542	-	529,547
Less Accumulated Depreciation	(3,475,124)	(2,169,408)	-	(5,644,532)
Other Assets				
Investment in Joint Venture	-	-	14,751,659	14,751,659
TOTAL NONCURRENT ASSETS	12,867,649	7,774,966	14,751,659	35,394,274
TOTAL ASSETS	14,096,866	9,113,086	14,751,659	37,961,611
LIABILITIES				
CURRENT LIABILITIES				
Accounts Payable	60,285	31,020	-	91,305
Compensated Absences	12,348	9,085	-	21,433
TOTAL CURRENT LIABILITIES	72,633	40,105	-	112,738
TOTAL LIABILITIES	72,633	40,105	-	112,738
NET ASSETS				
Investment in Capital Assets, Net of Related Debt	11,452,111	6,255,205	-	17,707,316
Restricted				
Investment in Joint Venture	-	-	14,751,659	14,751,659
Impact Fees	1,415,538	1,519,761	-	2,935,299
Unrestricted	1,156,584	1,298,015	-	2,454,599
TOTAL NET ASSETS	\$ 14,024,233	\$ 9,072,981	\$ 14,751,659	\$ 37,848,873

See the accompanying notes to the financial statements

HEBER CITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water	Sewer	Electric	Total Enterprise Funds Internal Service Fund
OPERATING REVENUES				
Charges for Services	\$ 1,120,061	\$ 806,134	\$ -	\$ 1,926,195
Connection Fees	26,193	8,960	-	35,153
Miscellaneous	11,412	31,761	-	43,173
TOTAL OPERATING REVENUES	1,157,666	846,855	-	2,004,521
OPERATING EXPENSES				
Salaries, Wages and Benefits	359,769	203,677	-	563,446
Operations	318,431	371,246	-	689,677
Depreciation	327,983	201,962	-	529,945
TOTAL OPERATING EXPENSES	1,006,183	776,885	-	1,783,068
OPERATING INCOME	151,483	69,970	-	221,453
NON-OPERATING REVENUES (EXPENSES)				
Gain on Sale of Equipment	-	-	-	-
Impact Fees	323,502	231,481	-	554,983
Interest Income	97,376	111,380	-	208,756
Increase in Joint Venture	-	-	6,414,157	6,414,157
TOTAL NON-OPERATING REVENUES (EXPENSES)	420,878	342,861	6,414,157	7,177,896
INCOME BEFORE CONTRIBUTIONS	572,361	412,831	6,414,157	7,399,349
Capital Contributions	991,164	65,747	-	1,056,911
CHANGE IN NET ASSETS	1,563,525	478,578	6,414,157	8,456,260
TOTAL NET ASSETS AT BEGINNING OF YEAR	12,460,708	8,594,403	8,337,502	29,392,613
TOTAL NET ASSETS AT END OF YEAR	\$ 14,024,233	\$ 9,072,981	\$ 14,751,659	\$ 37,848,873

See the accompanying notes to the financial statements

HEBER CITY

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds			Governmental Activities	
	Water	Sewer	Electric	Total Enterprise Funds	Internal Service Fund
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Receipts from Customers	\$ 1,127,659	\$ 846,008	\$ -	\$ 1,973,667	\$ 164,644
Payments to Suppliers	(391,423)	(472,247)	-	(863,670)	-
Payments to Employees	(358,796)	(204,537)	-	(563,333)	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	377,440	169,224	-	546,664	164,644
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>					
Proceeds from Sale of Capital Assets	-	-	-	-	13,140
Impact Fees	323,502	231,481	-	554,983	-
Acquisition of Capital Assets	(359,023)	(259,154)	-	(618,177)	(81,560)
NET CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	(35,521)	(27,673)	-	(63,194)	(68,420)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>					
Interest Income	97,376	111,380	-	208,756	23,317
NET CASH FLOWS FROM INVESTING ACTIVITIES	97,376	111,380	-	208,756	23,317
NET CHANGE IN CASH AND CASH EQUIVALENTS	439,295	252,931	-	692,226	119,541
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,083,134	2,538,255	-	4,621,389	478,031
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2,522,429	\$ 2,791,186	\$ -	\$ 5,313,615	\$ 597,572

See the accompanying notes to the financial statements

HEBER CITY

STATEMENT OF CASH FLOWS (CONTINUED)

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Funds				Governmental Activities
	Water	Sewer	Electric	Total Enterprise Funds	Internal Service Fund
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES					
Operating Income	\$ 151,483	\$ 69,970	\$ -	\$ 221,453	\$ 17,785
Adjustments					
Depreciation	327,983	201,962	-	529,945	146,859
Changes in Assets and Liabilities					
Accounts Receivable, Net	(30,007)	(847)	-	(30,854)	-
Accounts Payable	(72,992)	(101,001)	-	(173,993)	-
Compensated Absences	973	(860)	-	113	-
NET CASH FLOWS FROM OPERATING ACTIVITIES	\$ 377,440	\$ 169,224	\$ -	\$ 546,664	\$ 164,644

Noncash Financing and Investing

Transactions

Developer Contributions of Fixed Assets	\$ 991,164	\$ 65,747	\$ -	\$ 1,056,911	\$ -
Developer Contributions of Water Shares	\$ 845,035	\$ -	\$ -	\$ 845,035	\$ -
Increase in Equity in Joint Venture	\$ -	\$ -	\$ 6,414,157	\$ 6,414,157	\$ -

See the accompanying notes to the financial statements

HEBER CITY, UTAH

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Heber City, Utah (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of the City's accounting policies.

Financial Reporting Entity

Heber City is incorporated under the laws of the State of Utah. The City is a municipal corporation governed by an elected five-member Council and Mayor. The City provides municipal services under the following organizational structure:

General Government: Mayor and City Council, City Manager, Justice Court, Treasurer, Recorder, Building, Planning and Zoning

Public Safety: Police and Animal Control

Public Works: Streets, Water, and Sewer

Parks and Recreation

Cemetery

Airport

Government-wide and Fund Financial Statements

The government-wide financial statements (statement of net assets and statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include 1) charges to customers who directly benefit from goods or services provided by a given function or activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTE 1 - (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Financial resources used to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt of the City are reported as a reduction of the related liability, rather than as an expenditure in the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter (within sixty days) to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt-service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, use taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenues when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.

The *debt service fund* is used to account for the accumulation of resources for the payment of principal, interest and related costs on certain general long-term debt paid primarily from taxes levied by the District. The fund balance of the Debt Service Fund is reserved to signify the amounts that are restricted exclusively for debt service expenditures.

The *airport capital projects fund* is used to account for the acquisition of land or construction of airport capital facilities.

The City reports the following major proprietary funds:

The *water fund* accounts for the activities of the City's water production, treatment and distribution operations.

The *sewer fund* accounts for the billing to citizens for the Heber Valley Special Service District's treatment operations.

NOTE 1 - (CONTINUED)

The *electric fund* accounts for the activities of the City's joint venture with Heber Light & Power Company's electric generation and distribution operations.

Activities of these three funds include administration, operations and maintenance of the water, sewer and electric systems, and billing and collection. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted, if necessary, to ensure the integrity of the funds.

The City applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Fund Equity

A. Cash and cash equivalents

Cash includes cash on hand, demand deposits with banks and other financial institutions, and deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts. City policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the Utah Public Treasurer's Investment Fund (Fund) and other investments allowed by the State of Utah's Money Management Act. Investments are reported at fair value. The Fund operates in accordance with state laws and regulations. The reported value of the City's cash in the Fund is the same as the fair value of the Fund shares.

Cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Investments with maturities of three months or less, when purchased, meet this definition.

B. Restricted assets

Cash which is restricted to a particular use due to statutory, budgetary or bonding requirements is classified as "restricted cash" on the statement of net assets and on the balance sheets. Restricted cash would be spent first and then unrestricted resources would be used when the restricted funds are depleted.

C. Capital assets

Capital assets, which include land, buildings, improvements, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost, if purchased, and at fair market value at the date of the gift, if donated.

NOTE 1 - (CONTINUED)

Major additions are capitalized, while maintenance and repairs which do not improve or extend the life of the respective assets are charged to expense.

Capital asset depreciation is recognized using the straight-line method over the estimated useful lives as follows:

<u>Classification</u>	<u>Range of Lives</u>
Buildings and Structures	20-50 years
Improvements and Infrastructure	7-50 years
Machinery and Equipment	5-15 years

D. Compensated absences

Accumulated unpaid vacation is accrued as incurred based on the years of service for each employee. Vacation is accumulated on a monthly basis. Proprietary funds expense all accrued vacation amounts when incurred. Governmental funds report an expenditure as the vacation is paid. The accumulated sick leave is earned at a rate of one day per month. Sick pay amounts are charged to expenditures when incurred. Employees may accumulate unlimited sick leave. The City's policy is to permit employees to accumulate a limited amount of earned, but unused, vacation time which will be paid to employees upon termination. The City also allows payment for accumulated sick leave to some employees at retirement or termination. Employees who have worked for the City for at least 5 years are eligible to be paid for 25 percent and employees who have worked for the City for at least 10 years are eligible to be paid for 50 percent of their accumulated sick leave.

E. Long-term liabilities

In the government-wide financial statements, and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are recorded net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and are amortized over the life of the related debt. In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

F. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Designations of unreserved fund balances are not required by law or accounting principles, but are further classifications of fund equity to identify funds which are earmarked by the City's management for specific purposes. These represent tentative management plans that are subject to change.

NOTE 1 - (CONTINUED)

G. Net assets

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Inter-Fund Transactions

During the course of normal operations, the City has transactions between funds to subsidize operations in certain funds, to allocate administrative costs, to construct assets, to distribute grant proceeds, etc. . These transactions are generally reflected as operating transfers, which are transfers from a fund authorized to receive certain revenues to the fund through which the resources are to be expended.

Deferred Revenue

Property taxes due November 30, 2006 and unpaid from 2005 are shown as deferred revenue.

Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of certain differences between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between total governmental fund balances and net assets of governmental activities in the government-wide statement of net assets. This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

NOTE 2 - (CONTINUED)

Capital Asset Differences

When capital assets (land, buildings, improvements and equipment) are purchased or constructed for use in governmental fund activities, the costs of those assets are reported as expenditures in the governmental funds. However, those costs are reported as capital assets in the statement of net assets. The details of these differences are presented below:

Land	\$ 9,170,251
Buildings and Structures	1,850,999
Improvements and Infrastructure	27,805,209
Machinery and Equipment	1,993,113
Less Accumulated Depreciation	<u>(10,629,430)</u>
Net Capital Asset Difference	<u>\$ 30,190,142</u>

Other Long-Term Asset Differences

Property taxes due in November 2006 are reported as deferred revenues in the governmental fund balance sheet. However, they are reported as current year revenues in the statement of net assets. The details of these differences are presented below:

Property taxes collectible in November 2006	<u>\$ 551,408</u>
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Long-Term Liability Differences

Long-Term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund balance sheet. All liabilities (both current and long-term) are reported in the statement of net assets. The details of these differences are presented below:

Accrued Interest Payable	\$ (29,928)
Revenue Bonds Payable	(2,347,000)
Unamortized Bond Issue Costs	17,913
Long-Term Compensated Absences	<u>(143,541)</u>
Total Long-Term Liability Difference	<u>\$ (2,502,556)</u>

Explanation of certain differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund financial statements include a reconciliation between changes in fund balances in the governmental funds and changes in net assets in the government-wide statement of activities. This difference primarily results from the long-term economic focus of the statement of activities versus the current financial resource focus of the governmental fund financial statements.

Capital Outlay and Depreciation Differences

Capital outlays are reported as expenditures in the statement of revenues, expenditures and changes in fund balances. They are reported as capital assets, with the costs allocated over the useful lives of the assets, as depreciation, in the statement of activities. The details of these differences are reported below:

Developer Contributions	\$ 502,688
Capital Outlay	1,746,989
Depreciation Expense	<u>(1,090,227)</u>
Net Difference	<u>\$ 1,159,450</u>

NOTE 2 - (CONTINUED)

Long-Term Debt Issuance and Repayment Differences

When long-term debt is issued it is reported as an other financing source. Repayments are reported as expenditures in the statement of revenues, expenditures and changes in fund balance. Issuance of debt is reported as a long-term liability and repayments are reported as reductions of those liabilities in the statement of activities. The details of these differences are reported below:

Amortization of Bond Issue Costs	\$ (2,559)
Principal Repayments	
Revenue Bonds	<u>431,317</u>
Net Difference	<u>\$ 428,758</u>

Other Revenue and Expense Differences

The changes in long-term compensated absences and in accrued interest payable are not reported in the statement of revenues, expenditures and changes in fund balance. Both changes are reported in the statement of activities. The details of these differences are reported below:

Loss on Sale of Fixed Assets	\$ (1,640)
Change in Long-Term Compensated Absences	12,717
Change in Accrued Interest Payable	<u>3,716</u>
Net Difference	<u>\$ 14,793</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Prior to the first regularly scheduled meeting of the City Council in May, the Mayor and the City Manager submit to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and proposed sources of revenues.

Between May 1 and June 22, the City Council reviews and adjusts the proposed budget. On or before June 22, a public hearing is held and the budget is legally adopted through passage of a resolution, unless a property tax increase is proposed. If a property tax increase is proposed, a hearing must be held on or before August 17, which does not conflict with other taxing entities that have proposed a property tax increase. At this time the final balanced budget is adopted.

Under Utah State law, the City's budget establishes maximum legal authorization for expenditures during the fiscal year. Expenditures are not to exceed the budgeted amounts, including revisions, except as allowed by the code for certain events.

The City Manager, in conjunction with the appropriate department head, has the authority to transfer budget appropriations within and between any divisions of any budgetary fund. The City Council has the authority to transfer budget appropriations between individual budgetary funds by resolution.

A public hearing must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.

NOTE 3 - (CONTINUED)

Annual budgets for the general fund, all debt service funds and capital projects funds were legally adopted by the City and are prepared on the modified-accrual method of accounting.

Although Utah State law requires the initial preparation of budgets for all City funds (both governmental and proprietary), it only requires the reporting of comparisons of actual results to budgets for the general fund and any major special revenue funds.

Tax Revenues

Property taxes are collected by the County Treasurer and remitted to the City in two to three installments in November, December, and a final settlement in the first quarter of the calendar year. Taxes are levied and are due and payable on November 1st and are delinquent after November 30th of each year, at which time they become liens if not paid. An accrual of uncollected current and prior year's property taxes beyond that which was received within 60 days after the fiscal year end has not been made, as the amounts are not deemed to be material.

Sales taxes are collected by the Utah State Tax Commission and remitted to the City monthly. An accrual has been made for all taxes received by the State for the period ended June 30th and thus due and payable to the City.

Franchise taxes are charged to various utility companies doing business with the City including telephone, cable television, gas utility, and electric utility companies. The fees are remitted on a monthly, quarterly, or annual basis. An accrual has been made for all fees due and payable to the City at June 30th.

NOTE 4 - DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that is available for use by all funds. Cash includes amounts in demand deposits as well as time deposits. Investments are stated at cost or amortized cost, which approximates fair value. Each fund's portion of this pool is displayed on the combined balance sheet as "Cash and Cash Equivalents" which also includes cash accounts that are separately held by several of the City's funds. Deposits are not collateralized nor are they required to be by State statute.

Deposits and investments for City government are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7) (The Act) and by rules of the Utah Money Management Council (the Council). Following are discussions of the City's exposure to various risks related to its cash management activities.

Custodial Credit Risk

Deposits. Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of the City to be in a *qualified depository*, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council. As of June 30, 2006, none of the City's bank balances of \$30,562 were uninsured and uncollateralized.

NOTE 4 - (CONTINUED)

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The City's policy for limiting the credit risk of investments is to comply with the Money Management Act. The Act requires investment transactions to be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities. Permitted investments include deposits of qualified depositories; repurchase agreements; commercial paper that is classified as "first-tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investor Services or Standard & Poors; bankers acceptances; obligations of the U.S. Treasury and U.S. government sponsored enterprises; bonds and notes of political subdivisions of the State of Utah; fixed rate corporate obligations and variable rate securities rated "A" or higher by two nationally recognized statistical rating organizations as defined in the Act.

The City government is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subjected to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses net of administration fees, of the PTIF are allocated based upon the participants' average daily balances.

The following are the City's investments at June 30, 2006:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
State of Utah Public Treasurer's Investment Fund (PTIF)	\$ 11,315,244	\$ 11,315,244	\$ -	\$ -	\$ -
U.S. Treasuries	<u>215,052</u>	-	-	<u>215,052</u>	-
Total Investments	<u>\$ 11,530,296</u>	<u>\$ 11,315,244</u>	<u>\$ -</u>	<u>\$ 215,052</u>	<u>\$ -</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The City manages its exposure to declines in fair value by investment mainly in the PTIF and by adhering to the Money Management Act. The Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The act further limits the remaining term to maturity of commercial paper to 270 days or less and fixed rate negotiable deposits and corporate obligations to 365 days or less. Maturities of the City's investments are noted above.

NOTE 6 - (CONTINUED)

Depreciation was charged to the functions/programs of the primary government as follows:

Governmental Activities	
General Government	\$ 24,397
Public Safety	20,175
Public Works	813,915
Parks and Recreation	9,073
Cemetery	16,148
Airport	<u>206,519</u>
Total Governmental Funds	1,090,227
Internal Service Fund	<u>146,859</u>
Total Depreciation Expense-Governmental Activities	<u>\$ 1,237,086</u>
Business-type Activities	
Water	\$ 327,983
Sewer	<u>201,962</u>
Total Depreciation Expense-Business-type Activities	<u>\$ 529,945</u>

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts Payable	\$ 916,558	\$ 91,305
Accrued Interest Payable	29,928	-
Developer and Subdivision Bonds Payable	<u>282,227</u>	<u>-</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 1,228,713</u>	<u>\$ 91,305</u>

The City collects deposits from those wishing to develop subdivisions within the City. These amounts are deposited into the City's bank account. The original deposit and any interest earned on the accounts is returned to the developer after the related project is completed.

NOTE 8 - INVESTMENT IN JOINT VENTURE

HEBER LIGHT & POWER COMPANY

The City is party to a joint venture with Midway and Charleston, neighboring municipalities. The joint venture was created by the three municipalities to provide electric services to their communities. Additional information is as follows:

a. Participants and their percentage shares:

Heber City	75.0%
Charleston	12.5%
Midway	12.5%

b. The utility is governed by the Power Board which is selected from the Mayor and City Council of the participating municipalities.

NOTE 8 - (CONTINUED)

- c. The Power Board governs the operations of the utility through management employed by the Board. Since the utility is subject to the same laws as the creating entities, it must follow state law for cities in the areas of fiscal management, budgeting, and financing. As the governing board is made up of the participants' mayors and appointees from the city councils, each participant has indirect control over these matters.
- d. Summary financial information, as of the joint venture's last year end of December 31, 2005 is as follows:

	<u>Heber Light and Power</u>	<u>Heber City's Share</u>
Total Assets	\$19,668,879	\$14,751,659
Total Liabilities	<u>7,869,914</u>	<u>5,902,435</u>
Net Assets	<u>\$11,798,965</u>	<u>\$ 8,849,224</u>
Total Operating Revenues	\$ 8,953,736	\$ 6,715,302
Cost of Sales	<u>7,561,089</u>	<u>5,670,817</u>
Gross Profit (Loss)	1,392,647	1,044,485
Operating Expenses	<u>1,005,162</u>	<u>753,871</u>
Net Operating Income	387,485	290,614
Non-Operating Income	83,344	62,508
Non-Operating Expense	<u>(357,446)</u>	<u>(268,085)</u>
Net Income (Loss)	113,383	85,037
Capital Contributed by Developers	733,913	550,435
Less Withdrawals	<u>(165,000)</u>	<u>(123,750)</u>
Net Increase in Retained Earnings	<u>\$ 682,296</u>	<u>\$ 511,722</u>

- e. The joint venture has the following long-term debt:

	<u>Total Amount</u>
Revenue Bonds, Series 2002	\$ 4,595,000
Capital Lease	2,504,713
Meter Deposits - Unsecured	<u>32,837</u>
	7,132,550
Less Current Portion	<u>(316,591)</u>
Net Long-Term Debt	<u>\$ 6,815,959</u>

- f. Audited financial statements for Heber Light and Power are available at Heber Light and Power's office.

NOTE 9 - LONG-TERM DEBT

The following is a summary of changes in long-term debt of the City for the year ended June 30, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
Special Assessment Bonds					
2001 Bonds	\$ 864,000	\$ -	\$ (234,000)	\$ 630,000	\$ 112,000
Revenue Bonds					
2003 Sales Tax	411,000	-	(46,000)	365,000	47,000
2003 Excise Tax	1,502,000	-	(150,000)	1,352,000	153,000
Capital Leases					
2003 Sharp Copier	1,317	-	(1,317)	-	-
Compensated Absences	<u>212,835</u>	<u>-</u>	<u>(7,900)</u>	<u>204,935</u>	<u>61,394</u>
	<u>\$ 2,991,152</u>	<u>\$ -</u>	<u>\$ (439,217)</u>	<u>2,551,935</u>	<u>\$ 373,394</u>
Unamortized Bond Issuance Costs				<u>(17,913)</u>	
				<u>\$ 2,534,022</u>	

Long-term debt and obligations payable at June 30, 2006 were as follows:

	<u>Interest Rate</u>	<u>Maturity Dates</u>	<u>Current Portion</u>	<u>Long-term Balance</u>
Governmental Activities				
Bonds Payable				
Special Assessment Bonds, Series 2001, Dated August 23, 2001 (original amount--\$1,355,000)	3.60% to 5.15%	2012	\$ 112,000	\$ 518,000
Sales Tax Revenue Bonds, Series 2003, Dated March 25, 2003 (original amount--\$500,000)	1.90% to 3.95%	2013	47,000	318,000
Class C Road Excise Tax Revenue Bonds, Series 2003, Dated July 30, 2003 (original amount--\$1,650,000)	1.60% to 3.65%	2014	153,000	1,199,000
Compensated Absences			61,394	143,541
Unamortized Bond Issuance Costs			-	(17,913)
Total Governmental Activities Long-term Debt			<u>\$ 373,394</u>	<u>\$ 2,160,628</u>

NOTE 9 - (CONTINUED)

Principal and interest requirements to retire the City's long-term obligations are as follows:

	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 312,000	\$ 88,973
2008	323,000	78,877
2009	334,000	67,681
2010	347,000	55,514
2011	360,000	42,223
2012-2014	<u>671,000</u>	<u>43,475</u>
	<u>\$2,347,000</u>	<u>\$ 376,743</u>

NOTE 10 - RESERVED FUND EQUITY

The Class "C" Roads allotment from the state excise tax is reserved for construction and maintenance of City streets and roads. The City's bond covenants require certain reservations of retained earnings in the general fund. Utah State statute requires unexpended impact fees held at year-end to be reserved for future expansion in the charging department or fund. A perpetual trust fund is designed to provide future operating costs for the cemetery. Funds are collected at the time a lot is sold and a percentage of the fee is transferred to the trust fund. In addition, funds have been designated for various capital projects.

NOTE 11 - RETIREMENT PLANS

Plan Description

Heber City contributes to the Local Governmental Noncontributory Retirement System, the Public Safety Contributory Retirement System, and the Public Safety Noncontributory Retirement System cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the systems and plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

Funding Policy

In the Local Governmental Noncontributory Retirement System, Heber City is required to contribute 11.09% of plan members' annual covered salary. In the Public Safety Noncontributory Retirement System, Heber City is required to contribute 19.34% of plan members' annual covered salary. The contribution rates are the actuarially determine rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

NOTE 11 - (CONTINUED)

Heber City's contributions to the Local Governmental Noncontributory Retirement System for the years ending June 30, 2006, 2005, and 2004 were \$124,692, \$111,063 and \$93,044 respectively. Contributions for the Public Safety Noncontributory Retirement System for June 30, 2006, 2005 and 2004 were \$85,989, \$81,991 and \$65,343 respectively. The contributions were equal to the required contributions for each year.

NOTE 12 - DEFERRED COMPENSATION PLANS

The City sponsors a defined contribution deferred compensation plan administered by The Utah Retirement Systems under the Internal Revenue Code Section 401(k) for City employees covered by the State's noncontributory retirement plans. The plan, available to certain permanent full and some part-time employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available until termination, retirement, death, or unforeseeable emergency. The 401(k) deferred compensation monies are not available to the City or its general creditors. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested in the employee's account from the date of employment. The City contributes a total of 12% to the Public Employee Non-Contributory Retirement Plan. Any contribution in excess of the amount that is required to pay for the defined benefit is allocated to the employees 401(k). During fiscal year 2005-2006 the City was required to pay 11.09% to the defined benefit program and .91% to the employee 410(k). During the years ended June 30, 2006, 2005 and 2004 contributions totaling \$39,841, \$37,100 and \$33,615, respectively, were made to the plan by employees and \$23,755, \$21,870 and \$33,295 respectively, by the City.

The City sponsors a defined contribution deferred compensation plan administered by The Utah Retirement Systems under the Internal Revenue Code Section 457 for City employees covered by the State's noncontributory retirement plans. The plan, available to certain permanent full and some part-time employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available until termination, retirement, death, or unforeseeable emergency. The 457 deferred compensation monies are not available to the City or its general creditors. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested in the employee's account from the date of employment. The City allows employees who are exempted from the defined benefit program to invest the City's 12% retirement contribution into the 457 plan. During the years ended June 30, 2006, 2005 and 2004 contributions totaling \$16,165, \$15,845 and \$18,165, respectively, were made to the plan by employees and \$22,328, \$21,327 and \$20,173 respectively, were made by the City.

NOTE 13 - RISK MANAGEMENT

Heber City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is unable to obtain insurance to cover most of these risks at a cost it considered to be economically justifiable. The City joined together with other governments in the State of Utah to form the Utah Local Governments Trust (ULGT), a public entity risk pool currently operating as a common risk management and insurance program for Utah State governments. The City pays an annual premium to ULGT for its general insurance coverage.

The City also carries comprehensive general liability insurance coverage through Utah Local Governments Trust. Settled claims from this risk type have not exceeded coverage in any of the past three fiscal years.

NOTE 14 - OPERATING TRANSFER RECONCILIATION

The operating transfers among the funds were as follows:

	<u>In</u>	<u>Out</u>
General Fund	\$ -	\$ 705,000
Debt Service	255,000	-
Capital Projects - Airport	50,000	-
Capital Improvements	400,000	-
	<u>\$ 705,000</u>	<u>\$ 705,000</u>

NOTE 15- SUBSEQUENT EVENTS

The City anticipates receiving federal aviation administration grants totaling approximately \$3,000,000 in the Spring of 2007. Proceeds from these grants will be used for improvements to the City Airport.

SUPPLEMENTARY INFORMATION

HEBER CITY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>Capital Projects</u>	<u>Industrial Park</u>	<u>Storm Drainage</u>	<u>Streets</u>	<u>Parks</u>	<u>Perma- nent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS							
Restricted Cash	<u>\$ 401,736</u>	<u>\$ 113,837</u>	<u>\$ 441,027</u>	<u>\$ 790,353</u>	<u>\$ 212,792</u>	<u>\$ 146,511</u>	<u>\$ 2,106,256</u>
TOTAL ASSETS	<u>\$ 401,736</u>	<u>\$ 113,837</u>	<u>\$ 441,027</u>	<u>\$ 790,353</u>	<u>\$ 212,792</u>	<u>\$ 146,511</u>	<u>\$ 2,106,256</u>
LIABILITIES AND FUND EQUITY							
LIABILITIES							
Accounts Payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,594</u>	<u>\$ -</u>	<u>\$ 59,594</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,594</u>	<u>-</u>	<u>59,594</u>
FUND BALANCE							
Reserved							
Capital Projects	<u>401,736</u>	<u>113,837</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>515,573</u>
Impact Fees	<u>-</u>	<u>-</u>	<u>441,027</u>	<u>790,353</u>	<u>153,198</u>	<u>-</u>	<u>1,384,578</u>
Cemetery							
Perpetual Care	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>146,511</u>	<u>146,511</u>
TOTAL FUND EQUITY	<u>401,736</u>	<u>113,837</u>	<u>441,027</u>	<u>790,353</u>	<u>153,198</u>	<u>146,511</u>	<u>2,046,662</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 401,736</u>	<u>\$ 113,837</u>	<u>\$ 441,027</u>	<u>\$ 790,353</u>	<u>\$ 212,792</u>	<u>\$ 146,511</u>	<u>\$ 2,106,256</u>

HEBER CITY

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2006

	Capital Projects	Industrial Park	Storm Drainage	Streets	Parks	Perma- nent Fund	Total Nonmajor Governmental Funds
REVENUES							
Intergovernmental							
Revenues	\$ -	\$ -	\$ -	\$ -	\$ 2,500	\$ -	\$ 2,500
Charges for Services	-	-	-	-	-	37,420	37,420
Interest	<u>1,736</u>	<u>4,092</u>	<u>18,093</u>	<u>29,854</u>	<u>8,926</u>	<u>5,390</u>	<u>68,091</u>
TOTAL REVENUES	<u>1,736</u>	<u>4,092</u>	<u>18,093</u>	<u>29,854</u>	<u>11,426</u>	<u>42,810</u>	<u>108,011</u>
EXPENDITURES							
Capital Outlay	<u>-</u>	<u>-</u>	<u>30,685</u>	<u>6,398</u>	<u>159,362</u>	<u>-</u>	<u>196,445</u>
TOTAL EXPENDITURES	<u>-</u>	<u>-</u>	<u>30,685</u>	<u>6,398</u>	<u>159,362</u>	<u>-</u>	<u>196,445</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	1,736	4,092	(12,592)	23,456	(147,936)	42,810	(88,434)
OTHER FINANCING SOURCES (USES)							
Impact Fees	-	-	75,739	249,104	58,629	-	383,472
Gain on Sale of Land	-	105,220	-	-	-	-	105,220
Transfers In	<u>400,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>400,000</u>
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER (USES)	401,736	109,312	63,147	272,560	(89,307)	42,810	800,258
BEGINNING FUND BALANCE	<u>-</u>	<u>4,525</u>	<u>377,880</u>	<u>517,793</u>	<u>242,505</u>	<u>103,701</u>	<u>1,246,404</u>
ENDING FUND BALANCE	<u>\$401,736</u>	<u>\$113,837</u>	<u>\$441,027</u>	<u>\$790,353</u>	<u>\$153,198</u>	<u>\$146,511</u>	<u>\$ 2,046,662</u>

HEBER CITY

SCHEDULE OF IMPACT FEES

FOR THE YEAR ENDED JUNE 30, 2006

Heber City collects storm drainage, streets, parks and recreation, water and sewer impact fees. The following is a recap of the impact fees outstanding by year of collection:

Year Collected	Storm Drainage	Streets	Parks and Recreation	Water	Sewer
2000	\$ 25,140	\$ -	\$ -	\$ -	\$ -
2001	40,953	-	-	-	305,806
2002	92,840	-	27,801	200,552	297,298
2003	53,340	45,425	23,241	246,031	209,155
2004	54,518	113,821	24,842	208,184	162,928
2005	75,404	113,821	66,852	383,597	291,203
2006	98,832	244,726	70,056	377,174	253,371
Total	\$ 441,027	\$ 517,793	\$ 212,792	\$ 1,415,538	\$ 1,519,761

The following capital projects are planned to use the impact fees shown above:

Capital Project Planned	Projected Cost	Anticipated Starting Date	Type of Impact Fee
Flood Control Diversion/Detention	\$167,000	Summer 2007	Storm Drain
Muirfield Park	\$15,000	Spring 2007	Parks & Rec.
Daniels Gate Park	\$28,000	Fall 2007	Parks & Rec.
Highway 189 - 30" Sewer	\$469,000	Summer 2008	Sewer
1200 South - 30" Sewer	\$137,000	Winter 2007	Sewer
Wasatch Canal - 24" Sewer	\$94,000	Winter 2007	Streets
Airport Road - Daniels Road to Hangars	\$63,000	Summer 2008	Streets
600 South - 300 West to 1200 East	\$440,000	Summer 2009	Streets
750 East - Center to 1200 South	\$14,000	Winter 2006	Streets
Center Street - Main to 1200 East	\$379,000	Spring 2009	Streets
1200 East - Center to Highway 40	\$92,000	Summer 2007	Streets
Mill Road - 600 South to 2400 South 16" Main	\$1,111,000	Spring 2007	Streets
800 North - Mill Road to Highway 40 12" Main	\$114,000	Summer 2008	Water
Hospital Well Booster Pump/Exp.	\$74,000	Summer 2008	Water
	\$149,000	Summer 2008	Water

STATE LEGAL COMPLIANCE REPORT

**GREG OGDEN, CPA
1761 EAST 850 SOUTH
SPRINGVILLE, UT 84663
(801)489-8408**

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

October 16, 2006

**The Honorable Mayor
Members of the City Council
Heber City, Utah**

Council Members:

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Heber City, Utah, for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, and have issued my report thereon dated October 16, 2006. As part of my audit, I have audited Heber City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. The City received the following major State assistance programs from the State of Utah:

**"C" Road Funds (Department of Transportation)
Liquor Law Enforcement (State Tax Commission)**

The City also received the following nonmajor grant which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the City's financial statements.)

**Development of Public Airports Grant
CAMS Grant**

Safe Sidewalk Grant

My audit also included testwork on the City's compliance with the following general compliance requirements identified in the State of Utah Compliance Audit Guide, including:

**Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property
Tax Limitations
Class C Road Funds**

**Special Districts
Other General Issues
Uniform Building Code Standards
Liquor Law Enforcement
Justice Court
Impact Fees
Asset Forfeiture**

The management of Heber City is responsible for the City's compliance with all compliance requirements identified above. My responsibility is to express an opinion on compliance with those requirements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. I believe that my audit provides a reasonable basis for my opinion.

The results of my audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. I considered these instances of noncompliance in forming my opinion on compliance, which is expressed in the following paragraph.

In my opinion, Heber City, Utah, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2006.

 (PA)
Greg Ogden,
Certified Public Accountant

GOVERNMENT AUDITING STANDARDS REPORT

GREG OGDEN, CPA
1761 EAST 850 SOUTH
SPRINGVILLE, UT 84663
(801)489-8408

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

October 16, 2006

Honorable Mayor
Members of the City Council
Heber City, Utah

Council Members:

I have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of Heber City, Utah, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, and have issued my report thereon dated October 16, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Heber City, Utah's control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Heber City, Utah's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the audit committee, the City's management, others within the organization, and the City Council and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Greg Ogden CPA". The signature is fluid and cursive, with the "CPA" part written in a slightly different style than the name.

Greg Ogden
Certified Public Accountant

SINGLE AUDIT REPORTS

**GREG OGDEN, CPA
1761 EAST 850 SOUTH
SPRINGVILLE, UT 84663
(801)489-8408**

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

October 16, 2006

**Honorable Mayor
Members of the City Council
Heber City, Utah**

Council Members:

Compliance

I have audited the compliance of Heber City, Utah, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June, 30, 2006. Heber City, Utah's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Heber City, Utah's management. My responsibility is to express an opinion on Heber City, Utah's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Heber City, Utah's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Heber City, Utah's compliance with those requirements.

In my opinion, Heber City, Utah complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control over Compliance

The management of Heber City, Utah is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Heber City, Utah's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulation, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Greg Ogden
Certified Public Accountant

HEBER CITY, UTAH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>PASS- THROUGH GRANTOR'S NUMBER</u>	<u>TOTAL EXPENDI- TURES</u>
<u>U.S. Department of Transportation</u>			
Passed through State Department of Transportation			
Division of Aeronautics			
Airport Improvement Program	20.106.17	3-49-0011-17	\$ 46,460
Airport Improvement Program	20.106.18	3-49-0011-18	498,681
Airport Improvement Program	20.106.19	3-49-0011-19	<u>285</u>
Total Department of Transportation			<u>545,426</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 545,426</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Heber City, Utah and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

HEBER CITY, UTAH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expressed an unqualified opinion on the financial statements of Heber City, Utah.
2. No reportable conditions were disclosed during the audit of the financial statements of Heber City, Utah.
3. No instances of noncompliance material to the financial statements of Heber City, Utah, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No reportable conditions in internal control over major federal award programs are reported.
5. The auditor's report on compliance for the major federal award programs for Heber City, Utah expresses an unqualified opinion on all major federal programs.
6. The audit disclosed no findings that are required to be reported in accordance with section 510(a) of OMB Circular A-133 as reported in Section C of this schedule.
7. The program "Airport Improvement Program", CFDA number 20.106, was tested as a major program.
8. The threshold for distinguishing Types A and B programs was \$500,000.
9. Heber City, Utah was not qualified as a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None reported.

C. FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAMS AUDIT

None reported.

HEBER CITY, UTAH

MANAGEMENT LETTER
JUNE 30, 2006

**GREG OGDEN, CPA
1761 EAST 850 SOUTH
SPRINGVILLE, UT 84663
(801)489-8408**

MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

October 16, 2006

**Honorable Mayor
Members of the City Council
Heber City, UT**

Council Members:

The primary purpose of my audit of the basic financial statements of Heber City, Utah for the year ended June 30, 2006, was to enable me to form an opinion as to the financial position of the City at that date and the results of its operations for the year then ended. Part of my continuing professional responsibility to my clients is to offer constructive suggestions relative to the City's internal control structure and other matters that come to my attention during my audit of your financial statements. Your internal control structure is extremely important because it is the principal safeguard against irregularities which an audit may not disclose.

Enclosed for your information and consideration are my comments and suggestions relating to internal accounting controls and other general matters which came to my attention during my audit of the financial statements. I have not performed any auditing procedures beyond the date of my opinion on the financial statements; accordingly, this letter is based on my knowledge as of that date and should be read with that understanding.

In those instances where the need for improvement of internal accounting controls may be indicated, I have satisfied myself by extension of audit tests and review that the indicated weaknesses have not had a significant effect upon the financial statements for the year ended June 30, 2006. Since the purpose of my audit was not to make an intensive study of the matters commented upon, additional investigation may be required before acting on my suggestions.

My suggestions deal exclusively with operational, accounting, and recordkeeping systems and procedures, and should not be regarded as a reflection on the integrity or capabilities of anyone in your organization.

I appreciate the cooperation and assistance I have received from the City's personnel in connection with my audit and in developing these recommendations.

This report is intended solely for the use of the management of Heber City. However, this report is a matter of public record and its distribution is not limited.

I would be pleased to discuss any of these matters with you and your representatives at your convenience and, if desired, to assist you in implementing any of these suggestions.


Greg Ogden
Certified Public Accountant

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STATE COMPLIANCE FINDING

FINDING - GENERAL FUND BALANCE IN EXCESS OF AMOUNT ALLOWED

The City is allowed to maintain an unreserved general fund balance not to exceed 18% of total estimated general fund revenues. The current unreserved general fund balance of \$1,459,110 is approximately \$640,000 in excess of the amount allowed.

RECOMMENDATION

I recommend that the unreserved general fund balance be brought into compliance with State requirements.

RESPONSE - HEBER CITY

Some of the excess funds have already been appropriated in the 2006-2007 budget. The remaining funds will be appropriated or reserved for a specific purpose during the 2006-07 budget.

FINDING - RETAINAGE HELD ON CLASS C ROAD PROJECT

Utah Code, Section 72-3-108(6) requires that interest be paid to contractors for work on a Class C Road project if retainage is held by the City. The City held retainage from contractors that worked on Class C Road projects during 2006, but no interest was paid.

RECOMMENDATION

I recommend that the City pay interest to the contractors as required.

RESPONSE - HEBER CITY

We will pay interest on retainage for road projects for which Class C Road funds are exclusively used.

FINDING - OUTSTANDING CHECKS

The City currently has forty three outstanding checks totaling \$5,232.39 which are more than one year old. Some of the checks are as old as six years.

RECOMMENDATION

The State requires that unclaimed property be sent to the Division of Unclaimed Property annually. These checks should be researched, and if the payee cannot be located, the amount should be sent to the Division of Unclaimed Property.

RESPONSE - HEBER CITY

We will review the outstanding check list and remit monies to the Division of Unclaimed Property for those persons/businesses that we are not able to locate by January 2007.

FINDING - STORM DRAIN IMPACT FEES

The City is required to spend or encumber impact fees within six years of their collection. Storm drain impact fees totaling \$25,140 were collected in 2000, but have not yet been spent. A city is allowed to hold impact fees longer than six years if it identifies in writing 1) an extraordinary and compelling reason why the fees should be held longer than six years, and 2) an absolute date by which the fees will be expended.

RECOMMENDATION

I recommend that a written justification for holding the impact fees longer than six years be prepared. Otherwise the fees should be refunded to those from whom they were collected.

RESPONSE - HEBER CITY

The City has identified a potential property for purchase and anticipates commencement of needed improvements in 2007.

INTERNAL SUGGESTION

SUGGESTION- COURT CLERK

The court clerk currently collects fines and bail payments. These payments are then remitted to the city treasurer for deposit.

RECOMMENDATION

I recommend that all money be collected at one central location, preferably the Treasurer's office. Those paying bail or fines could then take proof of payment to the court to have it recorded.

RESPONSE - HEBER CITY

The City has had ongoing discussions about this issue and will be changing our collection practices in the next fiscal year.

HEBER CITY CORPORATION

Mayor

Councilmembers

David R. Phillips

Terry Wm. Lange

Vaun A. Shelton

Shari K. Lazenby

Jeffery M. Bradshaw

Elizabeth Hokanson

City Manager

Mark K. Anderson, CPA, CMC

February 22, 2007

MacRay A. Curtis

Director, Local Government Division

Utah State Capitol Complex

East Office Building, Suite E310

PO Box 142310

Salt Lake City, UT 84114-2310

RE: Corrective Action Plan

Dear Mac:

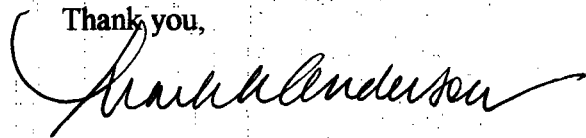
Heber City is in receipt of your letter requesting a corrective action plan regarding fund balance limitations. Heber City would submit the following:

Responsible / Contact Person: Mark K. Anderson, City Manager

Heber City would propose to reduce the unappropriated surplus to be within legal limits by restricting funds for specific purposes, if necessary, through the budget amendment process when we have a clearer picture of where the City will end up financially. This should occur prior to June 30, 2007.

I am hopeful that this letter will satisfy your requirements. If you have additional questions or concerns, please contact me.

Thank you,



Mark K. Anderson

City Manager

cc: file